Putting Illinois Back on the Map:

Prosperity through Innovation and Investment

METROPOLITAN PLANNING COUNCIL

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Getting There from Here

Gridlock in Springfield over the next state capital plan threatens the prosperity of Illinois and metropolitan Chicago. Many residents are so turned off by political infighting that they're not sure there's a way out.

As has been true throughout our 74-year history, the Metropolitan Planning Council (MPC) is not giving up. Based on the learnings from these events, as well as independent research, MPC has developed a series of recommendations to shape and fund capital infrastructure investment in Illinois. By going back to the drawing board on a state capital plan, Illinois can put itself back on the map. We're offering a path to prosperity through a package of innovations and investments that can keep Illinois moving toward a brighter future.

All policy and revenue recommendations presented within have one common goal: to improve Chicago's transportation network to ensure the region's continued economic growth. Without new and progressive transportation policies and sufficient revenue, Chicagolands' economy will stagnate or slide backward, spurring an exodus of jobs to other regions willing to make policy changes and identify needed revenue.

MPC has previously proposed that some of the ideas listed on the following pages be included in a state capital bill under consideration in 2008 and a federal surface transportation reauthorization bill in 2009. While all of the recommendations summarized here have merit, some of the ideas are so new and "outside the box" that lawmakers and the public need to be educated on potential benefits before they will be publicly accepted. Therefore, some actions can be implemented in the very near future, while other ideas will need months and likely years of research, outreach and advocacy before being politically viable solutions to regional and state transportation problems.

MPC Events Bring Ideas to Light

Over the past year MPC has hosted and participated in multiple events highlighting the need for fresh thinking and new revenue for capital projects, including changes in the way funding is allocated in Illinois for capital investments. This is a compilation of MPC's recommendations, research, and consensus building for the next state capital plan.

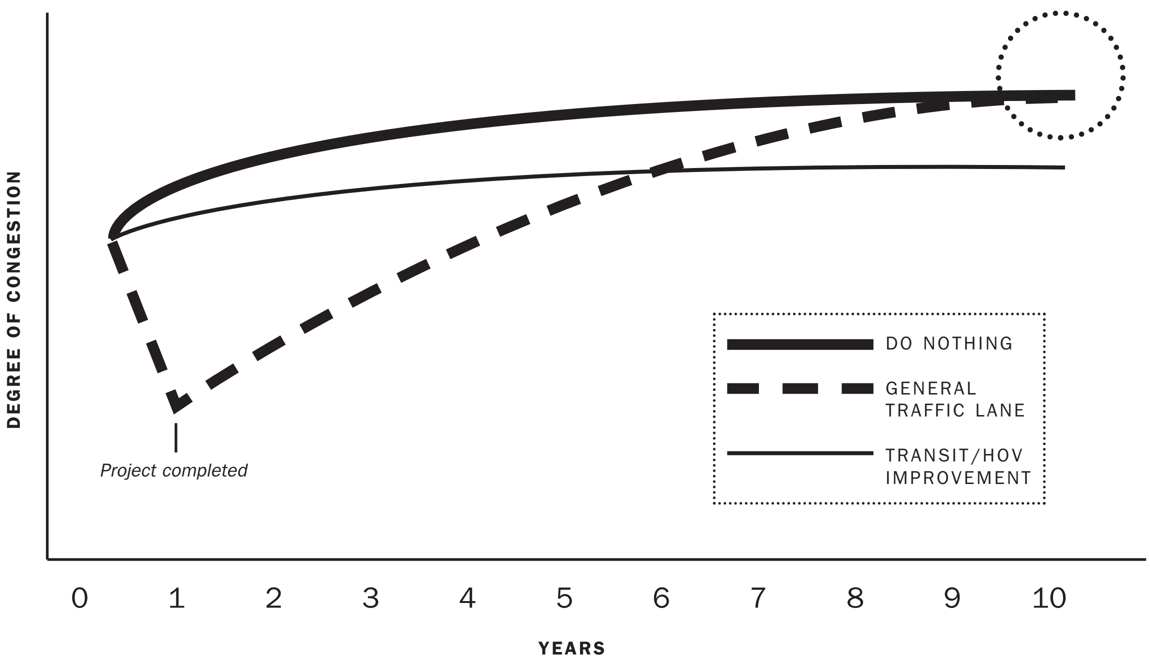
Foremost among these events was the William O. Lipinski Transportation Symposium, held in October 2007 and co-sponsored by MPC, McCormick Tribune Foundation, and Northwestern University. Other forums have included committee hearings and working groups convened by the Illinois House Mass Transit Committee, and an MPC-Brookings Institution roundtable that presented groundbreaking transportation practices in the United Kingdom and U.S. Specifically:

• The Lipinski symposium presented a broad range of innovative ideas for solving the congestion dilemma in metropolitan Chicago and around the country. National and international speakers highlighted best practices that could help the Chicago region maintain its position as an international transportation hub, including public-private partnerships, congestion pricing, and innovative parking policies.

• Throughout 2007, Ill. Rep. Julie Hamos (D-Evanston) held numerous working groups and public hearings to craft legislation that would generate urgently needed operating revenue for Pace, Metra, and the Chicago Transit Authority (CTA). MPC participated in all of these forums, providing ideas for reforming transit governance and identifying new revenue for capital needs. The resulting legislation, HB 656, included several reform provisions, such as mandating the Regional Transportation Authority (RTA) prioritize transit capital projects; and provided over $400 million per year to the RTA for operating expenditures. The bill passed the General Assembly and was signed into law in January 2008.

• In February 2008, following the release of the congressionally mandated and influential U.S. Policy and Revenue Commission Report, MPC hosted a roundtable featuring Oliver Jones, lead author of the U.K.'s 2006 Eddington Report; and the Brookings Institution's Rob Puentes, an expert on federal transportation funding and reforms. Both the Eddington and Policy and Revenue Commission reports advocate for a new model for funding transportation projects: fund investments that perform highest in a cost-benefit analysis based on selection criteria.

Congestion is Driving the Need for Innovative Policies



Road widening doesn't work

Road widening projects over the last 15 years have done virtually nothing to mitigate traffic congestion in major urban areas, according to an analysis by the Texas Transportation Institute's annual report on metropolitan traffic congestion.

Source: "Why Are the Roads So Congested? A Companion Analysis of the Texas Transportation Institute's Data on Metropolitan Congestion." Surface Transportation Policy Partnership. 16 Nov. 1998. http://www.transact.org/report.asp?id=63

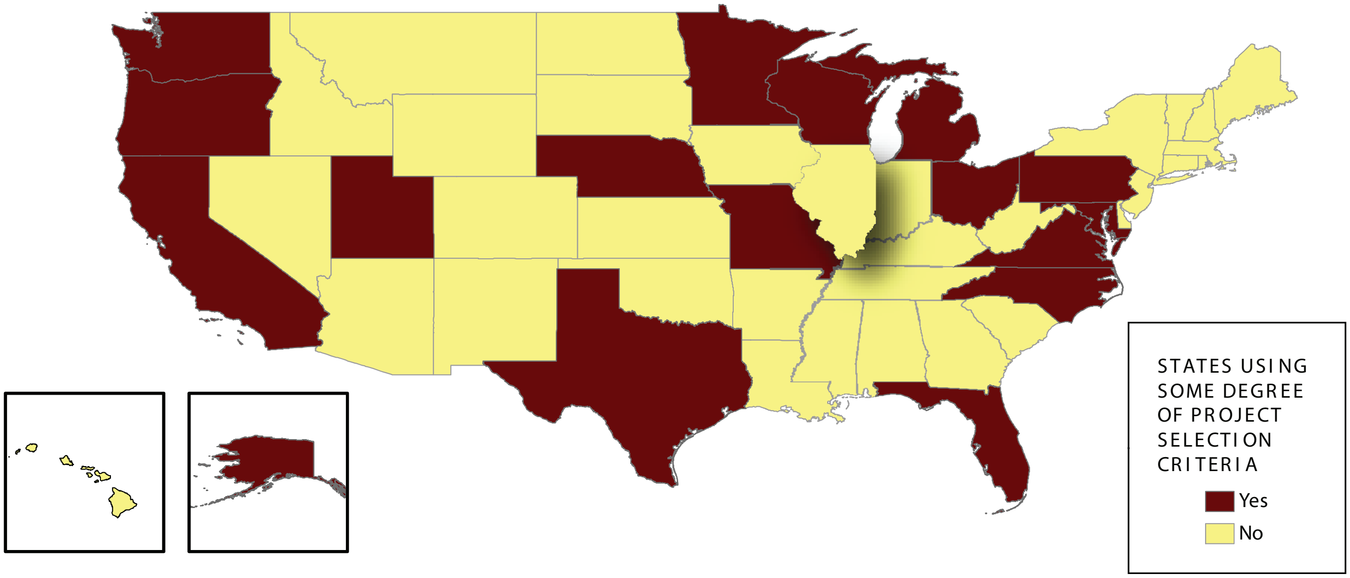
GRAPHIC, ABOVE: COURTESY OF VICTORIA TRANSPORT POLICY INSTITUTE

According to the Texas Transportation Institute, in 2005 congestion in the Chicago region cost the average peak-travel commuter 46 hours of delay per year, more than double the 22 hours lost per person in 1985. This is despite the increased number of lane miles added to highways and major arterial roads (from 13,000 to 15,000) during the same 20-year period. Clearly, adding lane miles is not the answer to congestion – nor is it even economically feasible: funding for capital construction has all but dried up as gas-tax revenues and other transportation user fees have neither kept pace with inflation, nor been increased in years.

Innovative policies are needed to manage congestion that is costing metropolitan Chicago $4 billion a year in lost time, energy and productivity. The old ways have created the problem we now face, and not only is an infusion of money needed, but new, accountable ways of spending the money is equally needed. If the Chicago metropolitan region is to be a globally competitive region, new approaches to planning, financing and constructing transportation infrastructure are a necessity.

Policy and Governance Changes

PROJECT SELECTION CRITERIA FOR TRANSPORTATION EXPANSION



RATING AND SELECTION CRITERIA

After Congress passed the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users in 2005, the phrase "a bridge to nowhere" became common vernacular for criticism of clout-based government spending. It referred to an earmark for a $400 million bridge in Alaska that would connect a town of fewer than 10,000 people to an island of fewer than 50 people, and became a symbol for wasted taxpayer dollars.

This example dramatizes that state and federal funding programs are mired in earmarking and deal-making practices that overlook many deserving projects. Governments at all levels need to identify a vision that creates a transparent path for prioritizing transportation investments that support sensible, sustainable growth. Executing that vision requires an accountable project rating and selection system to ensure scarce transportation dollars are dedicated to projects that provide what the National Surface Policy and Revenue Commission calls “economic justification.” Certain federal programs, such as the Federal Transit Administration’s New Starts Program, 18 states, and hundreds of regional planning bodies already use standardized project selection processes to make capital investment decisions.

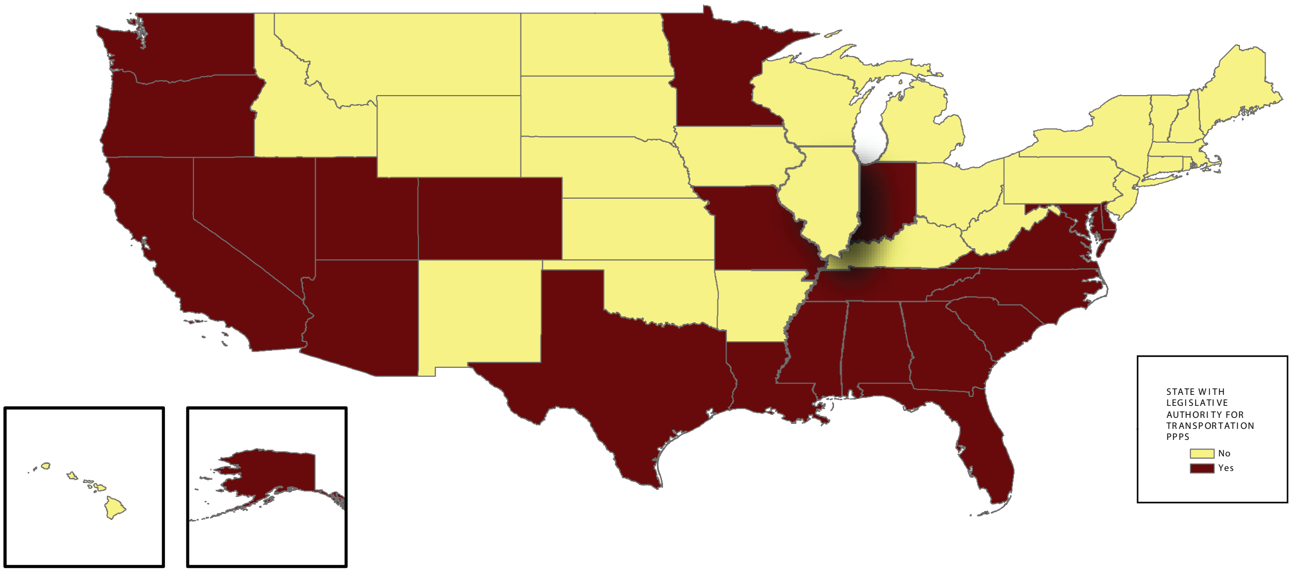
Illinois must include a project rating and selection process along with passage of any state capital bill; MPC will not support a capital bill without it. Passage of a capital bill may be politically impossible without this confidence-restoring tool to ensure scarce resources will go to high-impact projects. The 2009 reauthorization of the federal surface transportation bill also should have a rating and selection process for projects of national and regional significance, and mandate that states design and implement such a process or else risk losing a significant share of federal funding in the last three years of what is expected to be a six-year federal reauthorization measure.

Project Selection Criteria

Other states, to varying degrees, evaluate possible transportation expansion projects based on criteria such as safety, economic development, and transportation efficiency (i.e. decreasing congestion).

Illinois does use some criteria for determining maintenance projects, but has no clear criteria for prioritizing transportation expansion projects.

STATES WITH LEGISLATIVE AUTHORITY FOR TRANSPORTATION PUBLIC-PRIVATE PARTNERSHIPS (PPPs) (2007)



Public-Private Partnerships

Cooperation with the private sector often makes it possible to realize identified infrastructure goals with minimal investment of scarce public funds.

Much-needed infrastructure improvements, such as western access to Chicago O'Hare International Airport, could be built and maintained through PPPs.

Source: U.S. Dept. of Transportation, Federal Highway Administration, data valid through April 2007.

PUBLIC-PRIVATE PARTNERSHIPS

Due to a scarcity of public transportation dollars, many nations and cities around the world have turned to the private sector to help build new roads, transit and other modes of transportation, from which the private sector recoups its cost through tolls or fees. However, many states, including Illinois, have not authorized private entities to enter into partnerships with local or state governments to build and maintain new, much-needed infrastructure, such as western access to Chicago O'Hare International Airport. The authorization of public-private partnerships to build new transportation infrastructure (introduced in the Ill. General Assembly in 2007 as SB 378) should be a part of any Illinois capital bill. The 2009 federal surface transportation measure should expand the authorization of public-private partnerships to federal highways.

CONGESTION PRICING

From Minnesota to Colorado to California, cities and states have researched and implemented various congestion pricing strategies to improve traffic flow, reduce carbon emissions, and generate revenue. Congestion pricing, also called value or road pricing, levies a charge on motorists using certain segments of the road system during peak hours to induce drivers to choose other ways or times of traveling so that everyone can access their destinations more easily.

Cities around the world, most notably London, Stockholm and Singapore, have instituted cordon pricing, one form of congestion pricing, around their city centers. Prior to implementation, these cities substantially increased their transit capacity. For instance, London added 1,000 new buses to their system and other travel options to absorb those travelers who did not wish to pay or could not afford the cordon fee. When London implemented congestion pricing in 2003, congestion within the dedicated zone decreased 30 percent and transit ridership rose 18 percent. The U.S. DOT has initiated a new grant program to support metropolitan areas aggressively pursuing strategies to reduce traffic congestion. In 2007 and 2008, U.S. DOT awarded $800-plus million to six urban areas: San Francisco, Miami, Minneapolis/St. Paul, Seattle, Los Angeles, and Chicago, with the caveat that funding depended on transit enhancements and significant emphasis of a congestion or peak pricing component in their proposals.

Similar to a parking tax, congestion pricing mechanisms are also excellent land use and planning tools. Forcing people to consider the true cost of driving encourages some people to live closer to work and closer to transit options.

REGIONAL FUNDING

Metropolitan areas are the driving force behind the prosperity, ingenuity and vitality of our nation. Collectively, the nation's top 100 metros take up only 12 percent of the land mass in the United States, but account for an astounding 65 percent of population, 68 percent of jobs, and 75 percent of U.S. GDP. Chicago alone generates more than 80 percent of the economic development in Illinois. The metropolitan area has usurped the state to become the powerhouse of economic productivity and daily life for the American people. Yet, when it comes to decision-making, the state still wields the power over the direction of federal dollars, particularly in the case of surface transportation.

Over past two decades, federal legislation has shown interest in expanding funding sources and decision-making powers for metropolitan areas. By requiring the coordination of a long-range regional transportation plan with a short-term transportation improvement program (TIP), the federal Intermodal Surface Transportation Efficiency Act of 1991 strengthened the authority of the metropolitan planning organization (MPO) as the major leader in regional development decisions. It also required the sub-allocation of certain federal and state funds to the metropolitan level and authorized flexibility in transportation investment decisions, which are two key achievements in transportation policy.

However, the State of Illinois still manages to control investment decisions at the state and local levels. As the pass-through entity, the state has the power to hold funding until the MPOs complete the required transportation plans and programs to the state's partiality. About 80 percent of the projects found in the TIP are state road projects that rise to the top of the prioritization list, leaving Chicago and suburban municipalities to fight for the remaining 20 percent. Limited transportation dollars mean bicycle and pedestrian improvements, freight enhancements, carpool initiatives, and transit capital projects are pushed to the bottom, despite their high-quality congestion reduction and environmental and health benefits.

In the next federal transportation reauthorization, policymakers need to maintain, if not expand, the metropolitan area's authority and funding sources, while diluting the influence of the state on the region's transportation investment decisions. If metropolitan areas produce the dollars propelling the U.S. as a leader in the global marketplace, they also should have the authority to make the crucial transportation investment decisions necessary to move the people and goods driving this successful economic productivity.

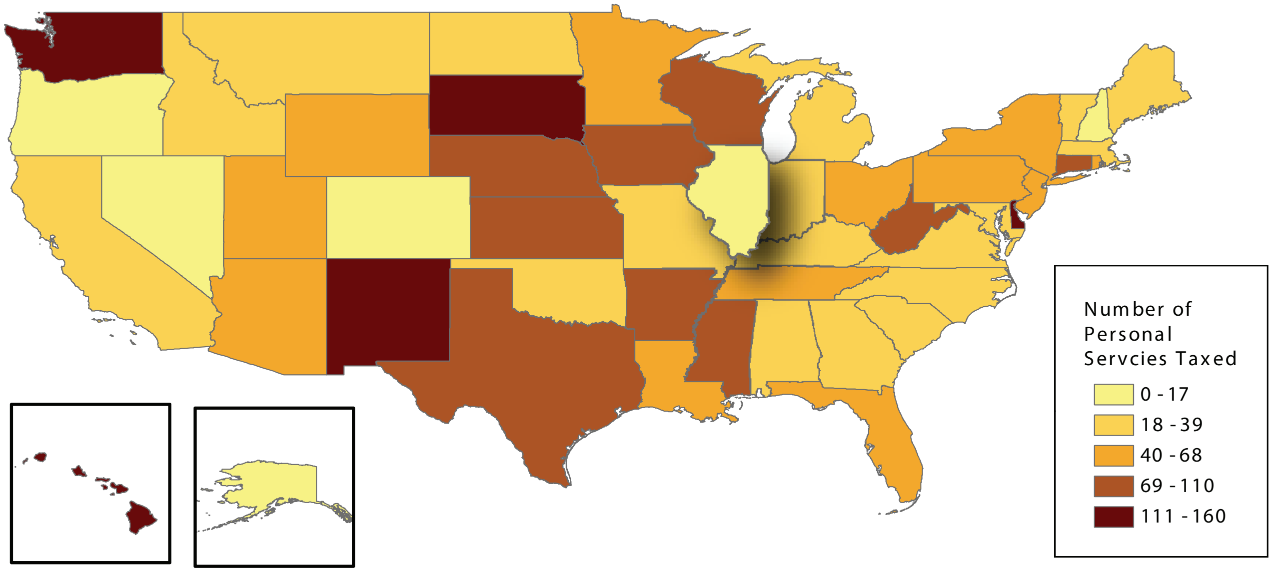
A Menu of Revenue Options to Pay for Investments

Raising revenue to maintain, enhance and expand the state and national transportation network needs to be considered simultaneously with governance changes that will make more efficient use of consumers' dollars. If people are going to pay more in increased transportation taxes, they will demand a good product in return. This includes a reduction of road congestion; safe roads and bridges free from structural deficiencies; reliable, safe and clean transit service; and, most importantly, easy access to the amenities the Chicago region has to offer: jobs, schools, museums, theaters, parks, beaches, retail centers, and restaurants.

As pointed out at the Lipinski symposium by Robert Puentes of the Brookings Institution and U.S. Rep. James Oberstar (D–Minn.), chairman of the U.S. House Transportation and Infrastructure Committee, federal and state motor fuel taxes have not kept pace with inflation. The federal motor fuel tax has not been increased since 1993, and the Illinois gas tax has not been raised since 1990. Meanwhile, construction costs are rising by more than 10 percent each year due to escalating demand for concrete and steel from developing countries. Motor fuel taxes will continue to lose their purchasing power as fuel-efficient and gasoline-free vehicles rapidly increase their market share; hybrid vehicle sales climbed 49 percent in the first seven months of 2007.

All of the following ideas for raising revenue are based on the same principle: tying transportation funding to stable streams of revenue that positively affect land use. User fees, for example, are especially useful for managing transportation demand. MPC urges a thorough consideration of this funding menu by decision-makers.

SALES TAX ON PERSONAL SERVICES BY STATE (2004)



Sales tax on personal services

According to the Center for Tax and Budget Accountability, consumer services make up 77 percent of the Illinois economy, yet go largely untaxed. As of 2004, only 17 out of a possible 168 consumer services – such as landscaping, health clubs, tailoring – were taxed in Illinois. The national average was 49.

Broadening the sales to tax to include specific services (excluding business, medical, housing and legal services) could net approximately $1.7 billion annually. If coupled with a .5 percentage point reduction in the sales tax, this measure would still net $822 million a year.

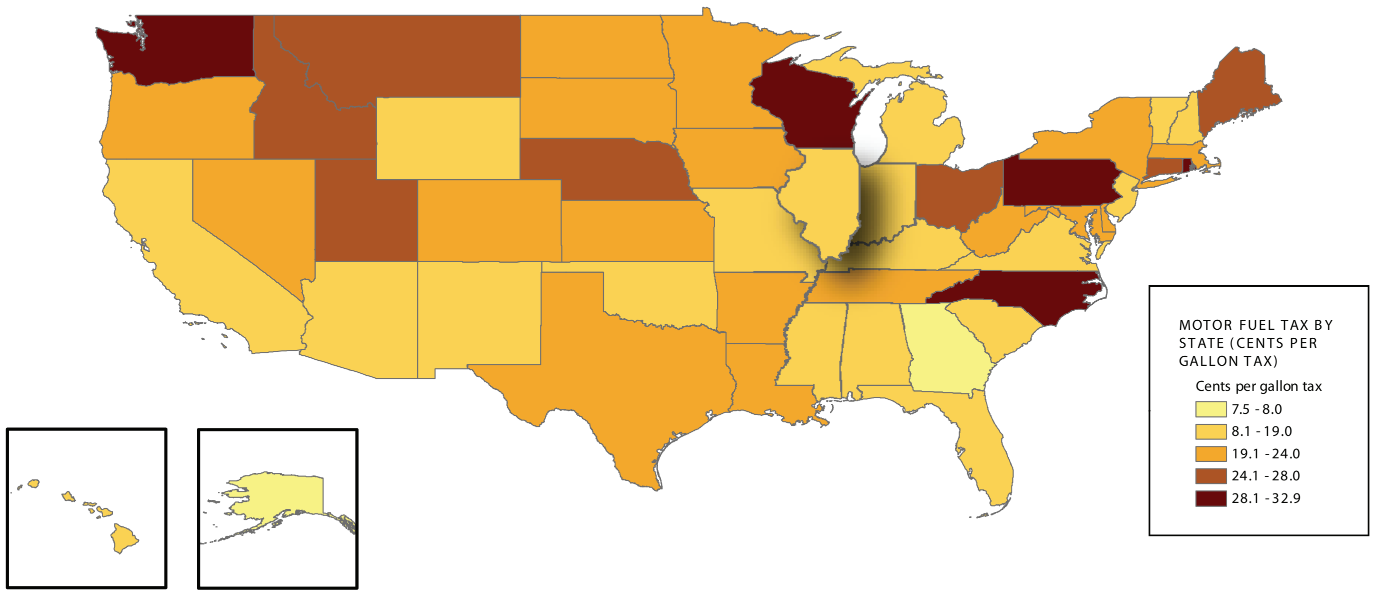
Source: Federation of Tax Administrators, 2004. 2004. Center for Tax and Budget Accountability, 2007.

EXPAND SALES TAX TO SPECIFIED SERVICES

Illinois' sales tax does not apply to services, the fastest growing sector of the economy. Broadening the sales tax to include specific services would help fund capital investments. Many organizations have supported this model: in a December 2006 report, for instance, the Commercial Club of Chicago cited expansion of the sales tax base within the context of an alternative approach to state finances. As the U.S. economy has shifted toward service-related transactions, Illinois' tax system has faltered. Illinois lags far behind other states in taxing services, as only 17 services in Illinois are taxed, compared to 94 services in Iowa, and 74 services in Wisconsin. In fact, only five states tax fewer services than Illinois, and none of them are located in the Midwest. Broadening the sales to tax to include specific services (excluding business, medical, housing and legal services) could net approximately $1.7 billion annually. If coupled with a .5 percentage point reduction in the sales tax, (which would help balance the tax burden) this measure would still net $822 million a year. While the specific list of services to be taxed could be modified, this significant untapped revenue could provide dollars for transit within a capital bonding program.

Because transit benefits the entire region, a modest but broad sales tax, coupled with an adjusted motor fuel tax (see pg. 9) is an efficient and equitable way to support a modern transit system and multi-modal transportation network. Many of the largest transit agencies in the country tap into sales tax revenue; according to the U.S. Government Accountability Office, 15 of the 25 largest transit agencies in the country use the sales tax as the main source of non fare-box revenue.

MOTOR FUEL TAX BY STATE (CENTS PER GALLON)



MOTOR FUEL TAX

The gas tax is the most common form of revenue for surface transportation maintenance and expansion projects, but inflation, politics and technology have diminished its purchasing power. State and federal legislative action is required to adjust for the effects of inflation on revenues, a daunting feat given political resistance to tax increases in general. This dependence on legislative action, coupled with more efficient and alternative fuel technologies due to the nation's heightened collective climate consciousness, will continue to erode the value of the gas tax to support transportation programs.

Therefore, while an increase in the state and federal motor fuel tax is needed, it will not provide a long-term solution to a deep and complex funding deficit. Raising the Illinois motor fuel tax by 5 cents per year and indexing the tax to inflation would yield roughly $325 million annually – a significant amount of capital to improve Illinois' crumbling infrastructure and out-of-date equipment. While this immediate increase in the gas tax would provide urgently needed revenue, subsequent capital bills should replace the motor fuel tax with a vehicle mileage tax, which not only is a more reliable and sustainable source of funding, but also a better strategy to influence travel choices.

Motor Fuel Tax

At $0.19 a gallon, Illinois' motor fuel tax is slightly higher than the national average of $0.174.

Raising the motor fuel tax by $0.05 a gallon would generate approximately $325 million annually, and Illinois would still be in the middle tier nationally.

Source: National Conference of State Legislatures, Surface Transportation Funding: Options for States, 2006.

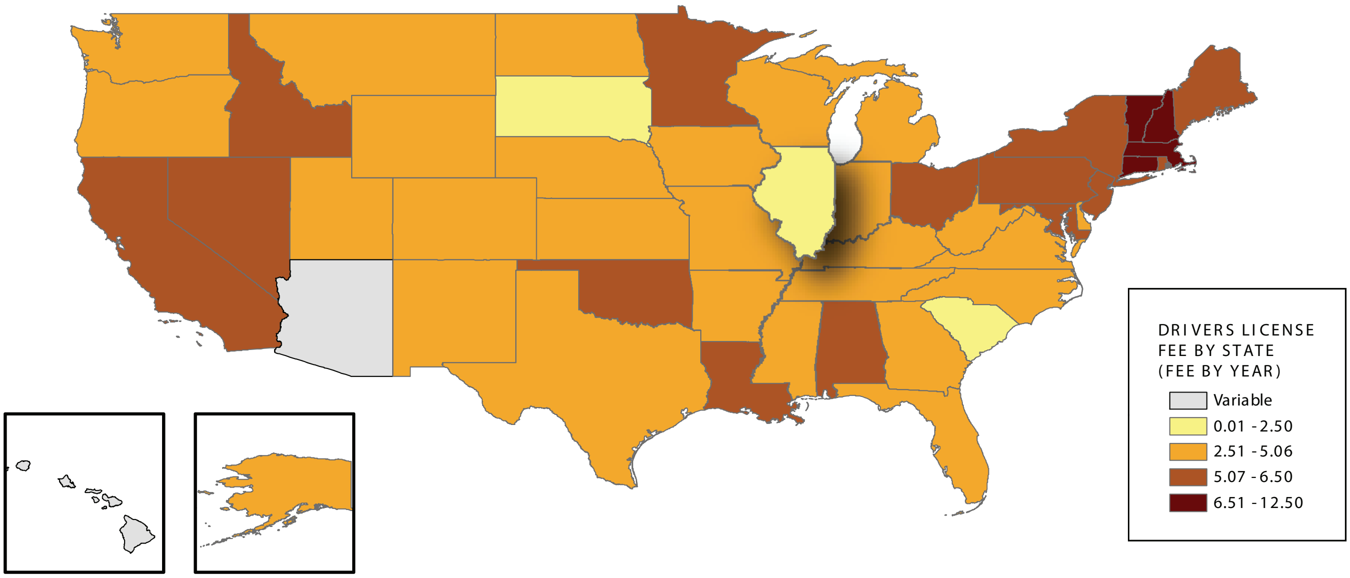
VEHICLE MILEAGE TAX

Levying a fee to individuals on a per-mile basis has the dual benefits of generating revenue and reducing travel demand. Oregon, with the support of the U.S. Dept. of Transportation (DOT), has testing a vehicle mileage tax in the Portland area. The demonstration project is an innovative first step to moving the country away from reliance on the fuel tax toward a direct user fee. The pilot program has worked through technical bugs and successfully eliminated privacy concerns, and the Oregon DOT has received positive feedback on the program from constituents. While other states may implement a vehicle mileage tax without the federal government's permission, federal incentives for experimentation would encourage more states to follow.

SALES TAX ON MOTOR FUEL

Currently, the sales tax on motor fuel in Illinois is funneled into the General Revenue Fund (GRF) and dispersed to different state departments and programs. According to estimates from the Center for Tax and Budget Accountability, increasing the sales tax on motor fuel by 0.02 percent per gallon could yield close to $150 million and add only $.0006 on every gallon of gas at $3 per gallon. A modest increase in the state sales tax on motor fuel with revenues directed to transportation rather than the GRF could infuse an empty roadway and transit capital program with needed cash.

DRIVERS LICENSE FEE BY STATE (FEE PER YEAR)



DRIVERS LICENSE FEES

Illinois' $10 fee for a drivers license is the nation's second lowest. Charging $35 for a license, slightly above the national average, would generate $52.5 million per year. The $10 fee has not been raised since 1983.

Drivers License Fee

Duration of drivers license validity varies from state to state, so the best way to compare them is to break the fee into an annual cost.

At $2.50 a year, Illinois' fee is the nation's second lowest (national average is $4.25 a year). It has not been raised since 1983.

Charging $35 for a new license and a four-year renewal would generate $52.5 million.

Source: State by state comparison, data primarily from state Depts. of Transportation.

VEHICLE REGISTRATION FEE

An increase in the yearly vehicle registration fee would provide a useful, stable, dedicated source of funding. However, not all vehicles are the same. Heavier vehicles damage road surfaces more quickly, and so should bear a greater share of the costs. A tiered fee system based on weight would be fair, easy and straightforward for IDOT to manage, and generate additional revenue. Several states, including Arkansas, Colorado, New Hampshire, and New York, have weight-based registrations.

Based on the estimate and fee structure in the chart, fees could actually be lowered for the lightest segment of the vehicle fleet, while still generating approximately $325 million a year in additional revenue.

VEHICLE REGISTRATION FEE

Auto weight class	Estimated share of market*	Proposed annual registration fee	Estimated revenue from fee	
Up to 3,000 lbs	10%	$50	$43,7 million	
3,001 lbs - 5,000 lbs	55%	$100	$480.9 million	
5,001 lbs - 8,000 lbs	30%	$150	$393.5 million	
Over 8,001 lbs	5%	$200	$87.4 million	
			$1 billion	**Estimated total revenue**
			$682 million	*Current Revenue from registration fee*
			$323.5 million	**Gain from Policy Change**

*ESTIMATED 6.82 MILLION CARS IN ILLINOIS

PARKING TAXES

Parking is a public commodity often overlooked as a source for regulating transportation demand and raising capital dollars. Todd Litman, of the Victoria Transport Policy Institute, wryly noted at the Lipinski Symposium that parking spaces are a "fertility drug for cars," fostering sprawl and consuming green space. Of the 95 percent of U.S. employees who commute by automobile, only 5 percent pay full parking costs. But unpriced parking is not really free, as consumers ultimately bear parking costs through higher taxes and retail prices, and reduced wages and benefits. By charging for all parking spots, drivers would be forced to consider the true cost of driving and pay their fair share for parking and roads. This also would yield numerous land use and sensible growth benefits by reducing impervious surfaces and better integrating retail and residential development.

RAIL FREIGHT TRUST FUND

Just as there is congestion on the nation's highways, there is congestion on the nation's railroad lines. Some plans have been developed to alleviate congestion at the worst bottlenecks, such as in Chicago; but no steady, stable funding mechanism has been identified to pay for the necessary signaling upgrades, grade separations, and new tracks.

Congress should develop a national railroad trust fund to alleviate these freight bottlenecks. It would be comprised of revenue generated by a small tax on all containers that enter into the most congested freight rail areas. A pilot program should be established in the Chicago area, the nation's freight rail hub, to test the viability of such a program. For example, all freight containers could pay a facility charge that would be directed to a public-private fund for railroad improvements within the region. General trust fund revenue from the federal government should match container fee revenue raised locally.

If the Chicago rail network, some of which is 150 years old, were modernized, freight speeds on both the roads and rails would increase dramatically, by over 50 percent. This is desperately needed, as freight traffic is expected to double in 30 years, with 80 percent of that traffic hauled on trucks if we do not upgrade our rail infrastructure.

Revenue Raisers for Illinois

CURRENT AMOUNT RAISED FOR TRANSPORTATION PER YEAR	MENU OF CAPITAL PLAN REVENUE OPTIONS	ADDITIONAL ANNUAL AMOUNT RAISED
$0	Broaden the sales tax to include services, reduce sales tax .5%	**$822 million** **($1.7 billion at current sales tax rate)**
$1.235 billion	Motor fuel tax increase of 5 cents (1 cent = $65 million)	**$325 million**
$0*	Increase sales tax on motor fuel by .02 percent	**$150 million**
$21 million	Raise drivers license fee from $10 to $35	**$52.5 million**
$1.005 billion	Weight-based vehicle registration fee	**$325 million**
$2.261 billion		**$1.674 - 2.252 billion** in additional funds

* $600 MILLION IS RAISED BY THE SALES TAX ON MOTOR FUEL AND DIRECTED TO THE GENERAL REVENUE FUND.

NOTE: The chart above details amounts that could be raised annually by adjusting current taxes and fees. Traditionally, the State of Illinois receives tax revenue and "bonds out" the revenue sources over multiple years to receive an influx of cash upfront to undertake a five-year capital construction program.

Founded in 1934, the Metropolitan Planning Council (MPC) is a non-profit, nonpartisan group of business and civic leaders committed to serving the public interest through development, promotion and implementation of sound planning policies, so all residents have access to opportunity and a good quality of life – the building blocks of a globally competitive greater Chicago region.

METROPOLITAN PLANNING COUNCIL

25 East Washington Street
Suite 1600
Chicago, Illinois 60602
www.metroplanning.org

For More Information contact
Michael McLaughlin
Regional Policy & Transportation Director
Metropolitan Planning Council
phone: 312.863.6022
e-mail: mmclaughlin@metroplanning.org